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USAID's Support for Democracy and Reconstruction in Iraq

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Mr. Chairman, members of the Subcommittee, it is an honor to appear before you today. I welcome the opportunity to testify on the U.S. Agency for International Development's (USAID) support for democracy and reconstruction in Iraq.

USAID supports six critical sectors that will make a substantial difference in the future of Iraq: democratic governance, education, health, economic growth, infrastructure, and humanitarian assistance. It is the largest reconstruction program in U.S. history, per capita, even bigger than the Marshall Plan.

On the civilian side of reconstruction, I can report that we have done many things well, but there have been gaps in our performance. We avoided many, but not all, of the political and economic pitfalls identified in our programs in the 1990s in Eastern Europe and the Newly Independent States. For example, we worked more successfully in Iraq to defeat a centralized government and a state-controlled economy. We knew that reliable electrical service correlates with confidence in government. But we have not overcome the complexity of social, technical, and logistical problems that plague power generation and distribution.

In terms of management of U.S. Government assets, USAID has disbursed $3.1 billion over the past 30 months, out of $5.1 billion that has been programmed for USAID to manage. We expect this rate of expenditure to continue, so that we will have disbursed $4.1 billion by March 2006, and the entire amount by September 2006. Our procurements in the past two years have been through full and open competition. By March 2006, USAID will be finished with many of our interventions, including civil-military collaboration, assistance to drafting the constitution and conducting elections, assistance to the ministry of finance, assistance to primary education, and collaboration among Iraqi and U.S. universities.

Many have asked for a clear understanding of what the USAID-managed assistance purchased. We have summarized the outcomes of our project work as of July 2005 in a separate publication, which is now available and has been provided to each Member of the Subcommittee. We also maintain the project outcomes on our website and update them weekly.

However, it is important to respond to the larger question: Has civilian reconstruction assistance made a difference? We believe so and have the data to back up this assertion. Despite the ongoing efforts to disrupt reconstruction in Iraq by those who oppose a stable democratic society, over 60% of Iraqis think that next year will be better than this year (International Republican Institute, July 2005). That is to say, the majority of beneficiaries of U.S. assistance see a future that is better than today. The February 2005 Quality of Life Survey, conducted by Research Triangle Inc., a USAID partner, showed that Iraqis were optimistic about education, health services, and their own communities.

Iraqis are actively involved in determining their political future, exercising the political freedom now open to them. More than 700 Iraqi non-governmental organizations (NGOs) got out the vote in January 2005 and helped educate people about the content of the Transitional Administrative Law (TAL). More than 8.5 million Iraqis, nearly 60% of the adult population, turned out to vote despite death threats. We are engaging these NGOs groups again this fall to

teach people about the new constitution, to encourage Iraqis to vote in the October 15 referendum, and again in December for a permanent government.

USAID and its partners have worked with three interim Iraqi governments over the past 14 months to put legal frameworks and economic systems in place that will support the permanent government when it is elected in December. The evolving political and economic relationships within the country oblige us to move towards programming for a pluralistic future. Numerous capable Iraqi leaders have been identified, not only within the executive branch and the national and provincial legislatures, but also in the business community and in civil society. These leaders include professors who helped draft the new constitution; women who mobilized voting and social programs; and city and provincial officials who now perceive government as a service provider.

Coordination between U.S. civilian and military reconstruction programs continues to be important. Our work with the First Cavalry and Third Infantry in Baghdad and the Marines in Anbar has resulted in swift success of the stabilization mission through more rapid delivery of benefits. Our uniformed colleagues have told us that they want more, not less, of this collaboration. On the topic of civil-military coordination, many have drawn a parallel between Iraq and the Civil Operations Rural Development Support (CORDS) program in Vietnam. It would be more correct to make the comparison between Iraq and the U.S. assistance programs in El Salvador, where military and civilian coordination allowed our assistance to reach over 90% of the country despite the conflict. What we seek in Iraq is the emergence of a civilian government, as happened in El Salvador, after traumatic years of violence.

Let me address head-on the issue of security. Are USAID and its partners constrained by security concerns as we implement our programs? Yes, certainly. Can we do our jobs and get results in the difficult circumstances on the ground? Yes, we can, and as noted above, we and our Iraqi colleagues are achieving substantive results. USAID personnel are able to visit project sites, although not as often as we would prefer. Our contractor and NGO partners work daily under the same conditions as their Iraqi counterparts. And our Iraqi national staff accept extraordinary risks as they help bring about a democratic government and an open economy.

In the long term, Iraqi oil wealth should provide the resources for most of the nation's development. In the transitional period, however, what we have seen in Iraq is what we have seen in other oil-rich countries, such as Nigeria, Indonesia, and Angola. In those nations, oil wealth can be a curse as well as blessing on the path to democracy and good governance. Because of the economic distortions embedded by Saddam Hussein's regime, the average Iraqi has not seen the oil wealth, whether it be in schools, public works, or a social safety net. Oil revenues finance subsidies that distort the non-oil economy and perpetuate the notion that people ought not pay for water, power, and social services. Government systems need to be strong enough that the lure of huge flows of oil money doesn't subvert the nascent democratic system. In both politics and economics, USAID's programs work to offset the potentially pernicious effects of oil wealth, while helping Iraqis to diversify their economy.

We expect that better management of Iraq's natural resources and the revenues they produce should allow the Iraqis to pay for their own security, their own social services, and their own public utilities. Nonetheless, we believe that operation and maintenance programs and reform programs are valuable tools to leverage better management at public utilities and the notion of fees for services. It is especially important that the United States assure the safe operation and maintenance of utility infrastructure that is constructed or rehabilitated.

USAID programs have set the stage for a market-led economy and an ambitious economic reform agenda for the constitutional Iraqi government. An investor roadmap, the guiding tool for reforms that would promote foreign direct investment, became available at the end of August 2005. By December, the Ministry of Finance will be able to track the budget and expenditure of 130 governmental entities. Under U.S.-sponsored economic reforms, the price of domestically grown wheat has been allowed to rise to match the price of imported wheat, incentivizing farmers to grow quality grain instead of merely animal feed. Subsidies for fuels, for electricity, and for the remnant of the publicly distributed food basket still remain in place. But with the economic reform analysis we have provided, Iraqi policymakers understand the dimensions of their budget problem and the tradeoffs between subsidies and other budget items.

We have been recalibrating, and continue to recalibrate, our program in Iraq based on the progress of the several interim Iraqi governments, the incipient private sector, and the growing number of Iraqi NGOs. A differently shaped program will be appropriate for the new permanent government. There are unmet needs in human capacity building, both for skilled trades needed for physical reconstruction and maintenance and in management of businesses and government programs. Our education programs must take into account the huge number of young people who will be looking for work within the next five years. Our economic and governance programs will evolve as the constitutional government takes the helm and as reform measures begin to take hold.

Many of the activities that we have undertaken since 2003 have sought to prepare for January 2006 when the permanent government is scheduled to take power. The process of post-conflict reconstruction, or that of rebuilding societies still in deep conflict, is not a precise science. However, USAID and many of its sister government departments and agencies have substantial expertise in identifying the essential elements of post-conflict reconstruction. These elements include public safety, social service delivery, stable markets, and responsive governance. The application of these essential elements in the specific circumstances encountered in Iraq, or Afghanistan, or El Salvador, or Mozambique, or Bosnia compose the approach that USAID uses in reconstruction.

Specifically in Iraq, our approach from our initial engagement in 2003 has been targeted to the reality that a new, permanent democratic government was the goal. The design of our programs has been guided by the question: What would that government need, from an economic and institutional perspective, to succeed and thrive? Our answer was that it would need:

- First, a sound economic footing to remove Iraq from the crushing debt burden inherited from Saddam. Hence, we worked with successive Ministers of Finance and Central Bank Governors to enable Iraq to meet the requirements of the IMF and to consummate a Paris Club debt forgiveness agreement.
- Second, basic reform of banking and investment codes to transform Iraq from a statist economy to a free market economy. Our assistance enabled Iraq to assemble its laws and regulations and submit them to the World Trade Organization for approval. A roadmap for foreign investment was published this past week.
- Third, rekindled contacts between leading elements of Iraqi society and the outside world to overcome the isolation of the Saddam years. We did this through university programs, exchanges of city leaders, doctors, and engineers, and introduction of world-class standards in accounting and safety.
- Fourth, a politically engaged electorate and civil society organizations to spread the base of power. We introduced and promoted decentralized governance with representative assemblies in cities and provinces, identified new leaders, and nurtured interest groups for human rights, women's issues, and business development.
- Fifth, and admittedly intangible, the new government would need a population with hope for the future. Broad programs with quick impact and community-level decision-making demonstrated that local solutions could be had for local problems. Over 7,000 small projects helped improve villages and neighborhoods.

Many Iraqi leaders have been involved in selecting options for better government financial management, for expansion of private banking, and for increasing investment, both foreign and domestic. Iraqi educators are changing the way that young people learn, promoting modern teaching methods to both universities and primary schools. Iraqis fear the oppressive effects of an overly dominant central government, but city and provincial governments are not yet fully capable of providing services and managing public investment. Under these circumstances, our local government program has helped cities and provinces respond to the needs of their constituents, while maintaining a sound relationship with the national ministries.

The United States is not alone in the reconstruction of Iraq; the World Bank and the United Nations have marshaled the grant aid of 23 bilateral donors into economic development programs and support for Iraqi elections. Substantial bilateral assistance, both in grants and loans, is expected to come on line after the December election. We are maintaining momentum with the Iraqis until other donor programs come on line. A good example is in school textbooks. USAID financed seven million math and science textbooks in 2003, and then turned the job over to the United Nations. The UN financed an additional twenty million textbooks in 2004. USAID routinely shares information with the World Bank. Likewise, we host food security and institutional capacity roundtables with the international community. Our technical assistance in macroeconomics has been targeted specifically to the requirements of the IMF and the World Bank. Technical specifications from USAID partners have been shared with the Japanese government to reduce the lead time for approval of that government's loans to Iraq.

Two very critical elements that have been only partially addressed in the reconstruction effort so far are,

- The need to transform drastically the education system in Iraq to produce a new generation of citizens and leaders for the new Iraq, and
- The opportunity to revitalize the potentially dynamic agricultural sector in Iraq which was stultified under Saddam's regime.

In summary, while substantial reconstruction work remains to be completed in Iraq, and despite a difficult operating environment, I believe most of the essential building blocks we had hope to provide to the incoming Iraqi government in January 2006 will be available.

I am prepared to answer any questions that the committee has. Thank you.